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As I see

THE DROP IN RESIDENTIAL RENTS

FOR the first time in the life of a 20-year-old friend of mine, residential rents have dropped of their own accord. The rent index of the Bureau of Labor Statistics for the month of April was one-tenth of 1 percent lower than it was the preceding month. With the exception of 3 months in 1942, when Federal rent control became effective as a war measure and when rents were forced back to lower levels by Government edict, no drop has occurred in the Government rent index since March 1935.

Federal rent control passed out of the picture in practically all communities on July 31, 1953. At that time the Bureau of Labor Statistics index of residential rents was 123.8. The index for April 1955 is 129.9, 4.9% above the level at the time of decontrol.

I am certain that all of us remember the dire predictions of the CIO and of various Government bureaucrats that the removal of Federal rent control would result in a skyrocketing of rents. One CIO publication put out by its Department of Research and Education ended a discussion of rent control with the statement "it is probable that rent control should be made a permanent feature of the economy."

In many bulletins from time to time during the past 24 years I have opposed the principle of rent control, always insisting that the best cure for high rents is high rents and the best cure for low rents is low rents. When rents are high, building is stimulated to the point that the supply of dwelling units is increased faster than the increases in demand. Vacancies appear, landlords compete against each other for tenants, and rents drop. When rents are low, relatively little building takes place. As a result, vacancies are absorbed and before very long the demand exceeds the supply and rents rise. No Government bureaucrat can control the market as well as the market controls itself.

The chart on the following page shows that a fundamental change has taken place in the factors affecting rent levels since the boom of the twenties. On this chart the dollar level of residential rents and the dollar level of selling prices of single-family residences are superimposed in the period preceding the Great Depression. It will be noticed immediately that the up-and-down movements are somewhat similar in timing and in extent during this period. Since the depression of the thirties, however, the similarity in the fluctuations of the two lines

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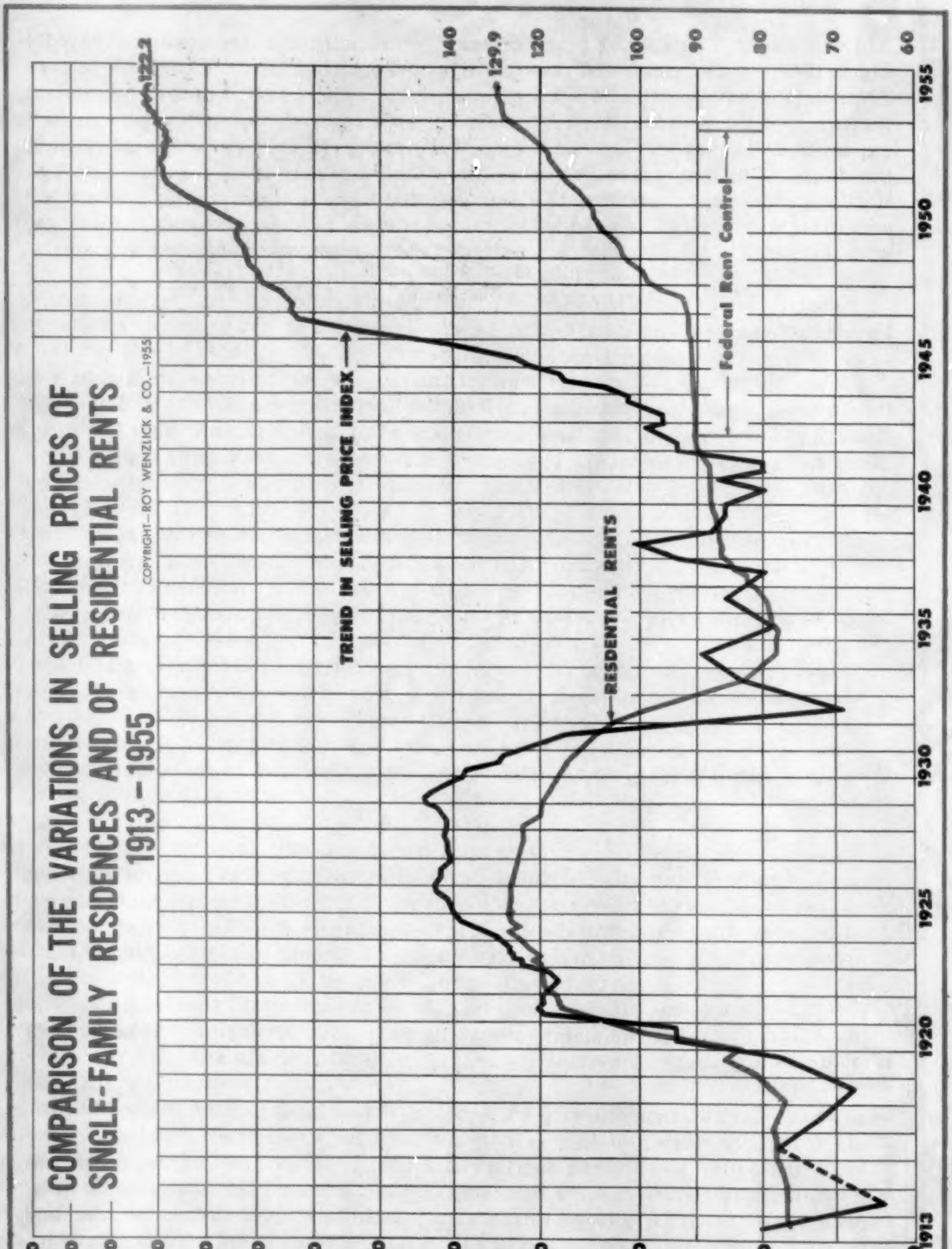

has vanished. The selling price of residential buildings has advanced rapidly since 1941, while residential rents have lagged even before the imposition of rent controls and have continued to lag after rent controls passed out of the economic picture. At the present time rent levels are approximately one-half what we would expect in dollars from the relationship in the past to the selling prices of existing buildings. The drop in the Bureau of Labor Statistics rent index in April, although it is microscopic in amount, is a warning that even in a period of unparalleled economic prosperity, residential rents are running into considerable resistance, with the probability that further rises, if they occur, will be relatively small.

What factors are responsible for changing this rather definite relationship of the period prior to the Great Depression?

It seems to me that a large part of the answer would lie in the amortized loan repaid over a long period of time with a very low down payment. This easy financing now generally available to persons who have saved relatively little has taken many persons out of the rental market and turned them into so-called home owners. Whether an individual is actually a home owner, taking an extreme example, when he contracts for the purchase of a home, signs a mortgage for the value of the property plus sales commission, closing costs and other extras, and receives in exchange for possession of the building such special considerations as a discount on the purchase of an automobile, special equipment for the house which is not ordinarily included in the purchase, and in a few cases outright cash payment, is a debatable question. But he no longer fits the technical definition of "renter" used in compiling the Government rent index, and from the standpoint of the owner of an apartment, he has ceased to be a prospect for the present.

Should the general level of business activity drop and should he find that the monthly payments on his automobile, furniture, television, room cooler, washing machine, drier and other miscellaneous gadgets exceed his monthly income, and should he also find that by that time the replacement cost of his home has dropped so that he owes more on his mortgage than his home is worth on the market, he may or may not come back into the rental market as a prospect. Even then, however, it is probable that the Federal Government through the Veterans Administration, the FHA, and some descendant of the HOLC will socialize the loss by renegotiating his mortgage, allowing him to continue to pose as a home owner.

As any country matures, there is a tendency for interest rates to drop. The highest interest rates are always paid in rapidly developing new areas in new territories and in new countries. As the United States has reached a greater degree of economic maturity, interest rates have tended downward, and this has been accelerated wherever possible by Government policy. By shifting the risk from the lender to the unsuspecting taxpayer, the Federal Government through the various Government bureaus has maintained a ready supply of money for the building of innumerable new residential buildings. I doubt very seriously whether rents for residential buildings in the United States can ever go beyond the levels of monthly cost of ownership on amortized loans.

Under the easy lending policy, the low interest rates and large percentage loans for a long period of years, we have succeeded in maintaining a very high volume of building year after year, with the result that during the last few years we have been building new dwelling units faster than the rate of new family formation. If in our urban redevelopment plans in the United States we tear down a sufficient number of obsolete and depreciated dwelling units, we can maintain for many years this high volume of building without increasing very much our inventory of unoccupied dwelling units. I doubt very seriously, however, whether in most cities we will eliminate a sufficient number of older units to keep vacancies from becoming excessive. The fight on the slums through private initiative is gaining momentum in the United States and we all hope that our obsolete housing can be replaced without too great a shock to the existing economy. We should keep in mind, however, that it is always possible to increase the production of any commodity beyond the capacity of the public to consume. Unless we remove the obsolete units at the lower end of the scale, we cannot continue to build new units at the rate we have been building.

Our organization has been studying carefully for many years the balance of supply and demand in the housing field. We wish that vacancy surveys were available on a city-by-city basis and that these surveys were taken annually. This would give us the best indicator possible of the balance or lack of balance in the housing supply and demand picture. Lacking such surveys, we have counted the advertisements in the newspapers of the principal cities advertising places for rent, and we have been somewhat alarmed at the increase we have found in recent years in the number of such advertisements. Undoubtedly, the pinch is gone from the housing shortage, and we believe that residential vacancy is increasing slowly but surely in the great majority of American cities. The small decrease shown in April by the Federal rent index is, we believe, the first confirmation of the fact that in the housing field we are passing from a seller's to a buyer's market.

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